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CONTACT: Stephanie Babyak, Stephanie.babyak@ed.gov (202) 401-1576

U.S. Department of Education Expands Student Loan Servicing Capacity

Stabilizing Student Loan Market, Protecting Borrowers and Safeguarding Taxpayer Funds

EDITOR'S NOTE: Updates to clarify the nature of the contract awards.

U.S. Secretary of Education Arne Duncan today announced that four companies were awarded contracts to service a portion of the approximately \$550 billion outstanding federal student loan portfolio held by the Department. The selected contractors will also service loans originated by and sold to the Department in the future. The award of these contracts provides the Department with the capacity necessary to support anticipated increases in the number of loans owned by the Department and ensures borrowers receive the assistance they need to effectively manage their federal student loan obligations.

AES/PHEAA of Harrisburg, Pennsylvania; Great Lakes Education Loan Services, Inc., of Madison, Wisconsin; Nelnet, Inc., of Lincoln, Nebraska; and Sallie Mae Corporation of Reston, Virginia, were awarded contracts under the Title IV Student Loan Management/Servicing procurement.

"The award of these contracts is another step in the Department's efforts to ensure that all eligible students have access to federal student loans and that, in partnership with the private sector, schools and borrowers receive excellent service," Secretary Arne Duncan said.

As a result of the state of the credit markets and subsequent passage of the Ensuring Continued Access to Student Loans Act, the Department will be acquiring a large volume of federally guaranteed loans in the coming months. In addition, the President's FY 2010 budget proposes originating all new federal student loans through the Direct Loan Program starting in 2010.

"The President's proposal ensures the viability of the federal student loan programs while saving billions of dollars that can be used to assure the future availability of federal Pell Grants for our nation's neediest students," Secretary Duncan said.

The new performance-based contracts offer the Department the capability to manage all types of Title IV student aid obligations, including, but not limited to servicing and consolidation of outstanding debt. The contracts have a base ordering period of five years with an optional five-year ordering period. The minimum contract award for compliant and performing firms is valued at \$5 million, with a maximum assignment to service up to 50 million student loan borrowers over the five-year ordering period. Ultimately, revenues generated under these contracts will be driven by contractor performance as measured by customer satisfaction and default aversion.

This year, the Department financed over 60 percent of the loans issued by private lenders through the authority granted the Secretary by Congress under the Ensuring Access to Student Loans Act. In addition, the number of loans originated under the Department's own Direct Loan Program has grown by 63 percent over the prior award year primarily as a result of schools choosing to switch to the Direct Loan Program.

The Department of Education's office of Federal Student Aid manages and administers the student financial assistance programs authorized by the Higher Education Act of 1965. Last year, Federal Student Aid delivered approximately \$100 billion in financial aid to almost 11 million students and families.

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